DOCUMENT RESUME

ED 322 462 CG 022 735

AUTHOR Stasica, Edward R.
TITLE Health Cost Containment, Wellness, and the 1990s.
PUB DATE Jul 90
NOTE 10p.; Paper presented at the Annual Conference of the National Wellness Institute (15th, Stevens Point, WI, July 15-20, 1990).
PUB TYPE Reports - General (140) -- Speeches/Conference Papers (150)

EDRS PRICE MF01/PC01 Plus Postage.
DESCRIPTORS Employees; Employers; Fringe Benefits; *Health Care Costs; Health Insurance; *Health Promotion; Health Services; Preventive Medicine
IDENTIFIERS *Cost Containment

ABSTRACT

Virtually every employer has it in their power to reduce their employee health care costs by 10-20 percent or more. The solution to the rising health care costs problem is a total health care system. Most cost savings potential will be centered in three areas: control of wasteful and often harmful use of the health care system; provider price negotiation; and cost avoidance through well-designed health promotion/wellness programs. Health promotion/wellness programs include: smoking policies and cessation programs; alcohol and drug abuse programs; high blood pressure and cholesterol screening and control programs; cancer screening; back injury prevention programs; automobile/industrial accident prevention; and stress management. The wellness programs of the future will be even more cost-beneficial than those of the past as quantitative, systematic design is utilized. Two issues have unnecessarily impeded wellness program implementation: funding and payback. Most companies have the potential to generate from $100 to $500 per employee annually from cost savings through truly comprehensive management of their current health benefit expenditures. Initial investments in appropriate well-targeted health promotion/wellness programs can yield substantial savings in health costs for many years to come. (ABL)

****
* Reproductions supplied by EDRS are the best that can be made *
* from the original document. *
****

U.S. DEPARTMENT OF EDUCATION
Office of Educational Research and Improvement
EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)
☑ This document has been reproduced as received from the person or organization originating it.
☐ Minor changes have been made to improve reproduction quality.
• Points of view or opinions stated in this document do not necessarily represent official OERI position or policy.

"PERMISSION TO REPRODUCE THIS MATERIAL HAS BEEN GRANTED BY
Edward R. Stasica
TO THE EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)."

ED322462

Health Cost Containment, Wellness, and the 1990s

Edward R. Stasica, M.B.A.

Virtually every employer has it in their power to reduce their employee health care costs by 10-20% or more.

For a company of 500 employees savings can amount to hundreds of thousands of dollars per year. For larger companies the potential savings opportunities can be many millions annually!

In discussing the corporate health cost issue with other health economists and experts in this field, it is quite apparent that most companies have only begun to realize the savings potential of truly comprehensive health cost management. In fact, it is estimated that the effectiveness level regarding management of employee health costs is probably only 20%-30% of potential as compared with how the rest of a given company's operations are managed.

Health cost management is one of the areas in which corporation must act to meet the challenge of international competitors such as Western Europe and Japan - whose per capita health costs are generally about half or less - with equal or better life span and health status results.

For example, West Germany and Japan can undersell and outcompete United States automakers by several hundred dollars per car - just based upon employee health care costs!

The Solution

The solution to the rising health care cost problem is Total Health Cost Management.

Most cost savings potential will be centered in three areas:

1.) Control of Wasteful and Often Harmful Use of the Health Care System

Analysis has shown that up to 30-40% of all hospitalizations and 50% of

CG022735

BEST COPY AVAILABLE

physician visits have been medically unnecessary. Also, it has been estimated that at least 100,000 patients per year die from hospital acquired infections - including many who did not belong in the hospital in the first place!

Means of addressing these problems include:

- Medical-Surgical utilization review. (Note: Much caution must be used in selecting a utilization review (UR) firm (or carrier program) with respect to both cost-efficiency and assurance of appropriate patient care.) Strong UR firms are often twice as effective as mediocre ones - and poor firms are actually counterproductive.
- Mental health and substance abuse utilization control. The pay-off of using strong management control can even be greater in this rapidly rising area of cost and concern.
- Large case management. Effective managers focus their efforts on where the big dollars are spent. Well-managed programs can save enormous sums and also improve the quality of care for the patient.
- Employee education and motivation. We have found that employees who are well informed and properly incented can become cost-saving consumers in their own and the company's best interest.

Data Analysis

In order to solve the problem of health care costs, it is imperative that meaningful management data be obtained and expertly analyzed - with respect to utilization control and the two following major areas of health cost savings.

2.) Provider Price Negotiation

Traditionally, employers have paid the bills and fees unilaterally set by hospitals, physicians, and other providers with little or no control of these transactions.

For the enlightened employer the time is now opportune to achieve substantial discounts - often 20% or greater - from providers willing to exchange lower rates for higher patient volume. As one example, an employer group in Milwaukee has successfully negotiated such agreements with several area hospitals - the 1st month's savings for one company was 27%.

Information has now become available through the Illinois Health Care Cost Containment Council, and other sources, to enable employers to "shop around" and obtain reduced prices from quality health care providers, whether hospitals, HMOs, or PPOs.

3.) Cost Avoidance through Well Designed Health Promotion/Wellness Programs

The first two approaches can rapidly reduce most employers' health costs in the near term - by dealing with much better management of the "repair" side of "health care" (more appropriately termed "sickness care") issue.

The ultimate long-term solution, however, is substantial reduction of the illnesses and injuries associated with a 50% lifestyle factor among the 10 leading causes of death (according to the U.S. Government Center for Disease Control) through preventative approaches.

As a health economist involved with health cost containment issues for over ten years, we have witnessed a geometrically increasing explosion of financial cost-benefit studies from many of the nation's top firms which support the investment in well-designed health promotion and wellness programs.

We have also, for example, witnessed corporate participation at the National Wellness Conference triple in the last year due to heightening realization that there needs to be a change in emphasis from "sickness benefits" to "health benefits" for companies to reduce costs and help create a healthier and more productive workforce.

Some examples of such programs include:

Smoking Policies and Cessation Programs

It is in the economic interest of virtually every employer to have a strong, well designed, non-smoking policy and an accompanying smoking cessation program.

Cost savings in many dozens of companies have resulted from:

- Reduced medical claims
- Decreased absences
- Reduced loss of key personnel due to premature death or disability
- Removal of risk related to law-suits for secondary smoke victims.

Company savings for non-smokers vs. smokers are estimated from $200 to well over $1000 per year per employee

Examples include:

- Goodyear which computed a $650/year savings.
- Control Data which found smokers health cost claims to be 118% higher than non-smokers.
- General Motors with a 2:1 cost-benefit ratio for smoking cessation programs.

Also, progressive health insurance companies and HMOs are offering reduced premiums for non-smokers, much as auto insurance firms give "good driver discounts" for those without traffic tickets or careless accidents.

Alcohol/Drug Abuse

Fifteen per cent of the American work force have a significant problem with drugs or alcohol. Corporate costs related to these problems have been rising twice as fast as health costs in general.

Many companies are using Employee Assistance Programs (EAP) with good success:

- AT&T reported a 70-80% success level with treated employees.
- General Motors reported a 3:1 cost-benefit ratio.
- The CEO of Kemper Insurance estimated a "Ten-fold return on EAP".

High Blood Pressure and Cholesterol Screening and Control

- The Travelers Insurance Company found hypertension among 17% of their employees - and half of these had been unaware of their problem.
- Campbell Soup estimated that strokes were reduced by 75% in their older employees through screening and cost effective in house treatment.
- Cholesterol, the new "silent killer", - and the ratio of total to high-density cholesterol - are highly correlated with heart disease risk and are being addressed through screening, nutrition and exercise programs in many companies. A one per-cent decrease in cholesterol level creates a two per-cent lower risk of heart attack.

Cancer Screening

- Campbell Soup has reported approximately a quarter of a million dollar savings through its colon cancer screenings.
- Mammography screening, which has decreased in cost, offers similar benefits, if used according to an appropriate frequency protocol.

Back Injuries

Back injuries cost American industry $20-30 billion per year.

Preventative programs such as developed by a Wisconsin employer have achieved as high as a 90% reduction in lost time injuries within two years.

Accidents - Automobile/Industrial

Accidents, particularly automobile accidents, are the chief killer of people in their 20s and 30s.

- The Ford Motor Company has calculated a savings of 3 lives, 120 injuries, and $3 million in health costs for a 10% increase in seat-belt usage by its employees.
- Employee education and motivation has been the key to workplace accident reduction for many companies.

Stress Management

Stress plays a role in the substantial majority of all illness.

Exercise, meditation and other stress management techniques can be extremely helpful in warding off disease and creating truly well, productive employees.

Business and Health magazine (November, 1986) has reported that a group practicing Transcendental Meditation, for example, had 50% lower hospitalization and health costs vs. a control group. This is attributed to the reduction of stress and consequent gradual adoption of better health habits.

The above result is consistent with the statement of a wise Eastern philosopher, and healer, who once observed, "Hospitals are prisons for those who have violated the laws of good health" - certainly food for thought for those who are spending hundreds of times as much upon repair of employees as on prevention.

Cost Effective Health Promotion and Wellness Program Design

The wellness programs of the future will be even more cost-beneficial than those of the past as quantitative, systematic design is utilized.

Factors considered in designing a cost-effective wellness program include:

- Prioritization of the wellness goals of the employer - cost containment,

lower absence and disability, higher productivity, morale, corporate image, etc.

- Analysis of health claims costs by diagnosis and assessment of prevalent risk factors for:
  - Employees/dependents
  - Executive/white collar/blue collar worker categories
  - Various company work-site locations
- Analysis of demographics (age, gender, ethnicity, etc.). For example, an employer with a high number of female employees of child-bearing age, such as most banks, might focus on preventing premature, low-weight births. The Sunbeam Company reduced maternity costs by a half million dollars at one location through attention to this issue.
- Targeting decisions. The program can be structured to reach:
  - High health cost employees
  - Executives
  - Individuals per health risk appraisal results
  - The general employee population
- What is the corporate culture? Budget available? Facility situation?
- Implementation - should the program be executed with internal resources or outside vendors - and if so, whom? Low or no-cost options are often available, as well as state-of-the-art "Cadillac" versions.
- Evaluation - the program should be periodically reviewed to see that it is in fact achieving "bottom line" results, and whether modification/improvements are indicated.

The Issues of Funding and Payback

Two issues often have unnecessarily impeded wellness program implementation: availability of initial funding and the time period required to recoup wellness program investment - sometimes 2, 3 or more years.

We have seen these issues addressed as follows by progressive, "bottom-line" corporate managers:

Initial Availability of Funds

Most companies have the potential to generate from $100 to $500 dollars per employee annually from cost savings through truly comprehensive management of their current health benefit expenditures.

As addressed earlier in this article, state-of-the-art utilization management, employee education and motivation, provider price negotiation, organizational health policies, etc., can readily provide many thousands or millions of savings dollars, depending upon employer size.

These savings dollars can, in turn, be at least partially invested in the longer term savings areas of well-designed health promotion/wellness programs.

The Payback Issue

Some years ago when this author was focusing on financial investment issues as an economist for one of the world's largest oil companies, we often analyzed multi-million dollar investments for petrochemical plants. These plants often took three or four years to design and build before the first pound of saleable product was produced and began generating a profit.

Yet, these investments were made because techniques such as discounted cash flow and net present value projected that the company's invested monies would yield an attractive rate of return.

The same analogy applies to well designed preventatively oriented wellness approaches. Initial investments in appropriate well targeted health promotion/wellness programs can yield substantial savings in health costs for many years to come - with the accompanying benefit of the increased health and productivity of a company's most important asset - its employees.

In summary, CEOs, human resource directors, corporate financial officers, and employee benefits managers have a wide array of opportunities available to better control and manage health costs - and create a healthier work-force capable of successfully competing in the global marketplace. A true "win-win" situation for management and labor.

It has now become increasingly clear:

Good Employee Health is Indeed Good Corporate Economics!

Edward R. Stasica, President of Stasica Associates, is a consultant to employers on health care cost management issues. He has served corporations, providers, and government for 10 years on health cost containment issues. Previously he was a corporate economist and financial analyst for major corporations. For more information he may be contacted at: Stasica Associates, 603 E. Prospect Ave., Mount Prospect, Illinois 60056. Phone (708) 255-8207.